

ORANGE & SEMINOLE COUNTY

INDUSTRIAL MARKET REPORT

QUARTER LEE NOTE

The third quarter of 2016 ended with continued positive momentum and signs of a very healthy and sustainable market. With vacancy rates hovering below 10 percent for the third consecutive quarter, it is important to note this benchmark, as the last time we had sub 10 percent vacancy levels was in the second quarter of 2008. Also noteworthy is the healthy correlation of the construction pipeline versus the annual absorption numbers. In 2015, we had annual absorption of 3.4 million square feet and in 2016, we are projecting absorption for calendar year 2016 to be just under 3 million square feet. The construction deliveries for 2015 were 1.7 million and as of the 3rd quarter of 2016, 2.7 million square feet are under construction. Overall, our market continues to show very healthy signs.

MARKET TRENDS: CHANGE FROM PREVIOUS QUARTER



MARKET OVERVIEW

Although leasing activity has slowed down slightly from what we saw in 2015, the Central Florida market continues to remain strong, with 2.27 million square feet of new construction under way. Overall market vacancy dropped to 8.5 percent in the third quarter, with eight of the ten submarkets we track under 10 percent total vacancy.

Positive absorption of 432,119 this quarter brought the year to date absorption to 1,230,183 square feet. The Airport/Southeast submarket had the highest positive absorption and office/warehouse product continues to remain the top performer of all product types. The average asking rental rate increased to \$5.36 per square feet, a reflection of the continued demand for space.

Building sales of \$82.3 million this quarter brought the year to date sales up to \$239.6 million, which is only \$7 million behind total sales in 2015 of \$246.7 million.

UNDERSTANDING THE REPORT

WE TRACK THE STUFF THAT MATTERS!

We do not track ancillary smaller buildings. Lee & Associates **tracks all industrial buildings 20,000 square feet and greater within Orange and Seminole counties.** Condominium and self-storage properties are not included in this report. Among the buildings tracked, there are four categories: flex, bulk/distribution, manufacturing and office/warehouse. Flex space is defined as a building that provides a configuration allowing tenants a flexible amount of office/showroom area in combination with manufacturing, warehouse and distribution space. Flex buildings will have a higher parking ratio than office/warehouse or bulk buildings, are typically grade level and have an office finish greater than 30 percent. Bulk/distribution is defined as a building which has a clear height of 22' or greater, has a minimum depth of 160' and typically has less than 10 percent office finish. Manufacturing denotes a property used for conversion or assembly of raw or partially raw materials into goods/products. Office/warehouse is defined as buildings that have a clear height of up to 21', have a maximum depth of up to 160' and typically have a higher office finish of 10-25 percent more than bulk buildings. The term "industrial" combines all categories with the exception of flex space, which is tracked and reported separately.

All rental rates reported do not include operating expenses or CAM charges and are reported on a triple net basis. **In addition, sublet space is not included in the overall absorption or weighted average rental rates.** In addition, we do not include build-to-suits that are 100 percent occupied by a tenant as positive absorption, however, we do note these events as activity in the market. Buildings that are partially pre-leased are included in positive absorption at the time construction begins. Lee & Associates tracks over 1,650 buildings in Orange and Seminole County which total approximately 109 million square feet. The flex inventory makes up 20 percent of the total space within the market, while the industrial product makes up 80 percent. We end our statistical gathering of data approximately one week prior to the end of each quarter.

MARKET SNAPSHOT

Comparison Rental Rates PSF:		
	2Q-16	3Q-16
Flex	\$8.05	\$8.19
Bulk/Distribution	\$3.57	\$3.60
Manufacturing	\$4.89	\$4.88
Office/Warehouse	\$4.33	\$4.33
Total Market	\$5.14	\$5.36

Comparison of Market Vacancy:		
	2Q-16	3Q-16
Direct	8.5%	7.9%
Sublet	0.7%	0.7%
Total Market	9.3%	8.5%

Comparison of Absorption in SF:		
	2Q-16	3Q-16
Quarterly Amount	431,420	432,119
Year-to-date	798,064	1,230,183

Construction Pipeline: 20,000SF+		
	2Q-16	3Q-16
U/C	2,398,362	2,274,278

Building Sales:		
	2Q-16	3Q-16
For the quarter	\$93.5M	\$82.3M
Avg Price PSF	\$56.20	\$44.00

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QUARTER IN REVIEW

Q3 2016

Although overall leasing activity has slowed down this year compared to the past two years, the Central Florida market's vacancy continues to decrease. With a direct market vacancy of 7.9 percent and sublet vacancy at .67 percent, the third quarter had an overall market vacancy of 8.5 percent. This represents a .8 percent improvement from the previous quarter. Office/warehouse product leads all product types with the lowest total market vacancy of 6.3 percent this quarter, while flex product continues to maintain the highest total vacancy at 14.3 percent.

Only two of the ten submarkets we track had vacancy rates over ten percent - Longwood/Lake Mary Sanford with 13 percent and the Eastside/University submarket with 10.3 percent. The best performing submarkets were Central with 5.5 percent and Orlando Central Park with 5.6 percent.

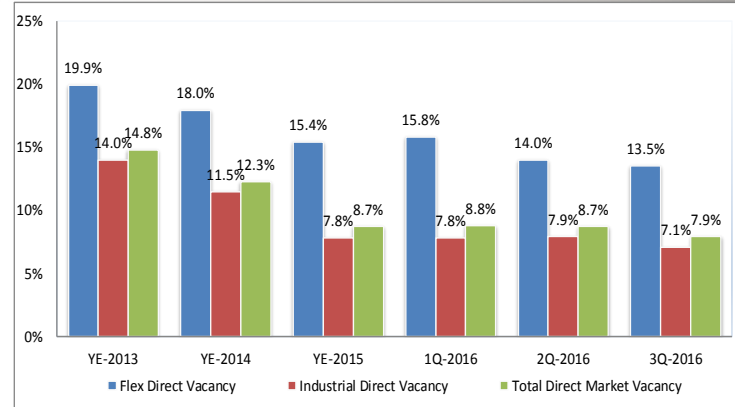
We saw an increase in the overall market asking rental rate from \$5.14 to 5.36 per square foot. Even though there is a significant amount of new product under construction, the drop below 10 percent vacancy has put an increased demand on the market, therefore justifying an increase in rental rates. Flex and bulk/distribution product both saw a slight increase in overall asking rental rates, while manufacturing and office/warehouse were flat. The Eastside/University submarket had the highest asking rental rate at \$7.90 per square foot, closely followed by the 33rd Street submarket at \$7.82 per square foot. The Airport/Southeast submarket had the lowest asking rental rate at \$4.19 per square foot.

Absorption this quarter was only slightly higher than the second quarter posting 432,119 square feet of positive absorption. This brought the total absorption for the year up to 1,230,183 square feet. Four of the ten submarkets had negative absorption and two submarkets had no absorption. Of the four submarkets with positive absorption, the Airport/Southeast submarket had the highest at 166,047 square feet and the Silver Star submarket was right behind with 162,419 square feet.

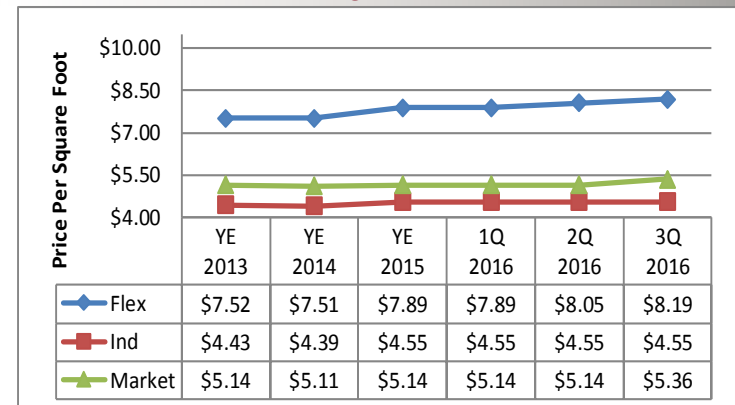
There was minimal change in the total buildings currently under construction from the previous quarter, however, we do expect to add several of these buildings to the inventory in the fourth quarter. There is currently 2,274,278 square feet under construction. These buildings include: four of McCraney Property Company's Bent Oak buildings totaling 826,893 square feet; DCT's ADC North Building D with 95,036 square feet; Becknell Development with Air Commerce Park on Tradeport Drive with 478,400 square feet; EastGroup's Horizon VII building on Beacon Lake Drive with 110,533 square feet; Max King Realty's 25,000 square foot building on McCoy Road; Realvest Development's two buildings on Shadowridge Road totaling 71,340 square feet; Foundry's three buildings off of Taft Vineland totaling 337,920 square feet; and Oakmont's two buildings totaling 329,156 square feet.

There were 32 building sales this quarter totaling \$82,380,700. The 1.7 million square feet of building sales had an average sale price of \$44.00 per square foot.

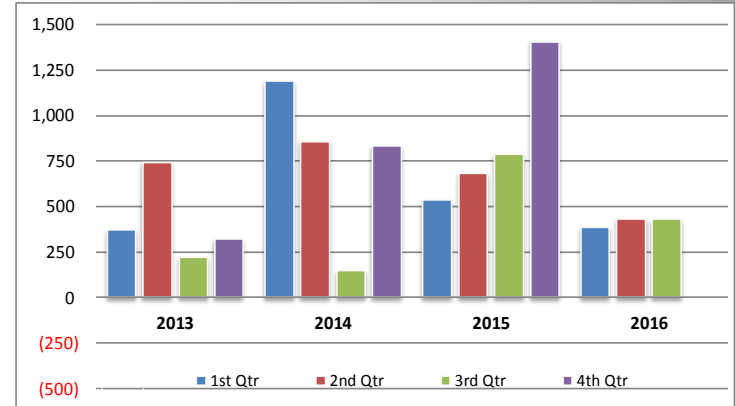
VACANCY



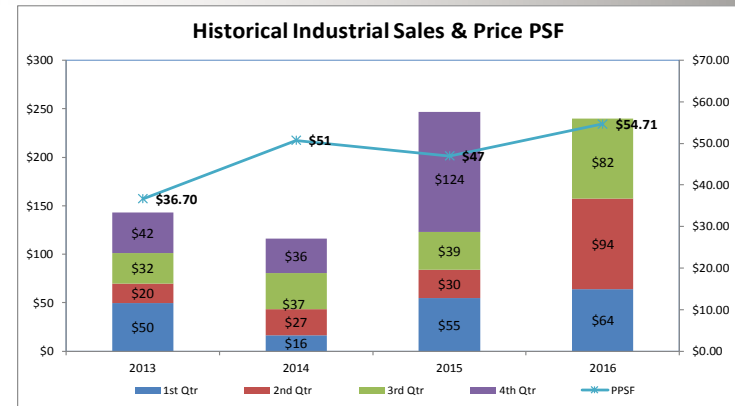
RENTAL RATES



ABSORPTION



SALES & AVERAGE PRICE PSF





QUARTER IN REVIEW

Q3 2016

TOP THIRD QUARTER LEASE TRANSACTIONS (RANKED BY SQUARE FEET)

Building Name	Tenant	Total SF	Submarket	Type
1264 La Quinta Drive	Eventsource	90,000	Airport	New
4201 Shader Road 	Dal Tile	50,878	Silver Star	New
3001 Directors Row	Wurth USA	50,566	OCP	New
7320 Kingspointe Parkway 	Mohawk	46,002	Southwest	Renewal
7662 Currency Drive	Blue Moon Global	43,993	OCP	New
1256 La Quinta Drive 	All American Crating	32,715	Southeast	Renewal
7297 Conway Road	Absolute Exhibits	32,000	Airport	Expansion

TOP THIRD QUARTER SALE TRANSACTIONS (RANKED BY SQUARE FEET)

Building Name/Address	Submarket	Total SF	Buyer	Seller	Sale Price	PPSF
3250 Shader Road	Silver Star	413,099	Cardinal System Holding Company LLC	Coca-Cola Refreshments USA Inc.	\$8,600,000	\$20.82
8650 Transport Drive	Airport/SE	360,000	MDH Propco 2015-B LLC	VIF II/Beachline LLC	\$16,254,000	\$45.15
1900, 2075 & 2150 Premier Row plus 2003 Viscount Row	OCP	187,992	Eisenberg OCP LLC	JY Presidents 2 LLC	\$9,925,000	\$52.79
11220 Space Blvd.	Airport/SE	126,404	Charles J Frazee	Sealy Mattress Company of FL Inc.	\$4,000,000	\$31.64
4161 John Young Parkway 	Silver Star	101,152	2800 Ace Road LLC	John Kingman Keating Trust	\$4,050,000	\$40.04
2814 Silver Star Road	Silver Star	92,998	Silver Sherwin LLC	Color Wheel Acquisition Corp.	\$3,700,000	\$39.79
2501 Principal Row	OCP	88,144	Pelliconi RE Inc.	Duke Realty Limited Partnership	\$5,996,200	\$68.03
2251 Mercy Drive	Silver Star	49,258	Mercy Drive Orlando LLC	Orlando Suncoast LLP	\$3,920,000	\$79.58
503 Ocoee Business Pkwy. 	Northwest	30,000	BPH Investments LLC	John Kingman Keating Trust	\$1,580,000	\$52.67

Submarket	# of Bldgs	Total RSF	Direct SF Available	Direct Vacancy	Sublet SF Available	Sublet Vacancy	Total Vacancy	Quarterly Absorption	Year to Date Absorption	Dir Wtd Avg Asking Rate
NORTHWEST										
Bulk/Distribution	6	830,375	10,000	1.2%	0	0.0%	1.2%	0	0	\$ -
Flex	17	581,323	27,154	4.7%	9,375	1.6%	6.3%	0	29,742	\$ 6.61
Manufacturing	14	664,500	8,925	1.3%	0	0.0%	1.3%	0	0	\$ 5.17
Office/Warehouse	79	3,736,899	298,701	8.0%	0	0.0%	8.0%	0	14,760	\$ 3.75
Submarket Total	116	5,813,097	344,780	5.9%	9,375	0.2%	6.1%	0	44,502	\$ 4.36
SILVER STAR										
Bulk/Distribution	16	3,363,912	165,964	4.9%	58,800	1.7%	6.7%	108,278	(3,600)	\$ 4.92
Flex	29	1,313,618	224,822	17.1%	0	0.0%	17.1%	9,392	87,427	\$ 8.36
Manufacturing	17	1,809,590	119,186	6.6%	0	0.0%	6.6%	0	(1,186)	\$ 6.48
Office/Warehouse	176	9,450,526	570,737	6.0%	26,700	0.3%	6.3%	44,749	29,028	\$ 5.15
Submarket Total	238	15,937,646	1,080,709	6.8%	85,500	0.5%	7.3%	162,419	111,669	\$ 5.93
33RD STREET										
Bulk/Distribution	4	332,722	0	0.0%	0	0.0%	0.0%	0	0	\$ -
Flex	31	878,557	88,957	10.1%	0	0.0%	10.1%	(1,680)	(2,672)	\$ 11.07
Office/Warehouse	81	3,734,619	350,293	9.4%	30,016	0.8%	10.2%	24,619	(12,084)	\$ 7.00
Submarket Total	116	4,945,898	439,250	8.9%	30,016	0.6%	9.5%	22,939	(14,756)	\$ 7.82
NORTH CENTRAL										
Flex	39	1,122,511	130,579	11.6%	0	0.0%	11.6%	(17,112)	(16,135)	\$ 9.28
Manufacturing	10	490,567	60,618	12.4%	0	0.0%	12.4%	0	0	\$ 5.21
Office/Warehouse	49	1,910,095	120,106	6.3%	0	0.0%	6.3%	2,400	2,935	\$ 4.50
Submarket Total	98	3,523,173	311,303	8.8%	0	0.0%	8.8%	(14,712)	(13,200)	\$ 6.64
LONGWOOD/LAKE MARY/SANFORD										
Bulk/Distribution	9	1,539,201	469,750	30.5%	0	0.0%	30.5%	0	11,500	\$ 4.29
Flex	55	2,075,977	286,758	13.8%	14,908	0.7%	14.5%	(4,773)	(57,804)	\$ 8.60
Manufacturing	43	2,582,313	303,702	11.8%	0	0.0%	11.8%	1,250	7,250	\$ 4.56
Office/Warehouse	146	6,518,362	576,724	8.8%	0	0.0%	8.8%	108,044	201,814	\$ 4.85
Submarket Total	253	12,715,853	1,636,934	12.9%	14,908	0.1%	13.0%	104,521	162,760	\$ 5.29
CENTRAL ORLANDO										
Flex	12	511,088	77,517	15.2%	0	0.0%	15.2%	0	0	\$ 10.00
Manufacturing	11	923,989	25,335	2.7%	0	0.0%	2.7%	0	0	\$ 1.99
Office/Warehouse	87	3,851,086	132,401	3.4%	57,798	1.5%	4.9%	0	67,199	\$ 5.25
Submarket Total	110	5,286,163	235,253	4.5%	57,798	1.1%	5.5%	0	67,199	\$ 6.47
EAST SIDE / UNIVERSITY										
Bulk/Distribution	1	350,140	0	0.0%	0	0.0%	0.0%	0	0	\$ 4.50
Flex	29	1,389,211	287,825	20.7%	42,363	3.0%	23.8%	2,500	28,960	\$ 8.69
Manufacturing	8	352,806	1,125	0.3%	0	0.0%	0.3%	0	0	\$ 6.25
Office/Warehouse	52	2,497,248	142,206	5.7%	0	0.0%	5.7%	(2,746)	(2,855)	\$ 6.36
Submarket Total	90	4,589,405	431,156	9.4%	42,363	0.9%	10.3%	(246)	26,105	\$ 7.90
AIRPORT / SOUTHEAST										
Bulk/Distribution	91	16,020,304	1,672,705	10.4%	299,793	1.9%	12.3%	43,067	528,193	\$ 2.85
Flex	69	3,084,474	402,419	13.0%	4,800	0.2%	13.2%	29,235	60,173	\$ 8.72
Office/Warehouse	235	16,014,347	885,348	5.5%	23,601	0.1%	5.7%	93,745	137,840	\$ 4.67
Submarket Total	395	35,119,125	2,960,472	8.4%	328,194	0.9%	9.4%	166,047	726,206	\$ 4.19
ORLANDO CENTRAL PARK										
Bulk/Distribution	55	8,644,697	472,128	5.5%	0	0.0%	5.5%	(13,000)	(46,141)	\$ 4.72
Flex	37	1,765,457	155,193	8.8%	18,847	1.1%	9.9%	3,409	60,210	\$ 8.53
Office/Warehouse	79	4,907,885	215,094	4.4%	0	0.0%	4.4%	8,101	42,133	\$ 4.37
Submarket Total	171	15,318,039	842,415	5.5%	18,847	0.1%	5.6%	(1,490)	56,202	\$ 5.33
SOUTHWEST										
Bulk/Distribution	16	2,529,405	106,892	4.2%	87,000	3.4%	7.7%	(7,359)	(1,699)	\$ 5.71
Flex	13	871,325	149,416	17.1%	28,036	3.2%	20.4%	0	5,332	\$ 8.27
Office/Warehouse	34	2,501,695	50,120	2.0%	0	0.0%	2.0%	0	59,863	\$ 6.28
Submarket Total	63	5,902,425	306,428	5.2%	115,036	1.9%	7.1%	(7,359)	63,496	\$ 7.05
TOTAL FLEX	331	13,593,541	1,830,640	13.5%	118,329	0.9%	14.3%	20,971	195,233	\$ 8.19
TOTAL BULK/DISTRIBUTION	198	33,610,756	2,897,439	8.6%	445,593	1.3%	9.9%	130,986	488,253	\$ 3.60
TOTAL MANUFACTURING	103	6,823,765	518,891	7.6%	0	0.0%	7.6%	1,250	6,064	\$ 4.88
TOTAL OFFICE/WAREHOUSE	1018	55,122,762	3,341,730	6.1%	138,115	0.3%	6.3%	278,912	540,633	\$ 4.33
TOTAL INDUSTRIAL SPACE	1319	95,557,283	6,758,060	7.1%	583,708	0.6%	7.7%	411,148	1,034,950	\$ 4.55
TOTAL MARKET	1,650	109,150,824	8,588,700	7.9%	702,037	0.67%	8.5%	432,119	1,230,183	\$ 5.36

*Note that total market consists of both Flex and Industrial properties combined

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